

Message Text

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PAGE 01 STATE 045567

44

ORIGIN EB-07

INFO OCT-01 ARA-06 EUR-12 EA-06 IO-10 ISO-00 SSO-00 NSCE-00

USIE-00 INRE-00 SP-02 AID-05 NSC-05 CIEP-01 TRSE-00

SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 L-02 H-01

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TO AMEMBASSY BERN IMMEDIATE

AMEMBASSY BONN IMMEDIATE

AMEMBASSY BRUSSELS IMMEDIATE

AMEMBASSY COPENHAGEN IMMEDIATE

USMISSION GENEVA IMMEDIATE

AMEMBASSY THE HAGUE IMMEDIATE

AMEMBASSY MADRID IMMEDIATE

AMEMBASSY OTTAWA IMMEDIATE

AMEMBASSY PARIS IMMEDIATE

AMEMBASSY STOCKHOLM IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

INFO AMEMBASSY LONDON

AMEMBASSY SANTIAGO

C O N F I D E N T I A L STATE 045567

E.O. 11652:GDS

TAGS:EFIN, CI

SUBJECT:CHILE DEBT RESCHEDULING

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PAGE 02 STATE 045567

REFS: (A) PARIS 5115; (B) LONDON 3012; (C) STATE 45175

GENEVA: PASS BENEDICK AND LEE IN UNCTAD DEBT DELEGATION.

1. EMBASSIES ARE REQUESTED TO APPROACH FOREIGN AND FINANCE MINISTRIES AT HIGHEST POSSIBLE LEVEL ON URGENT BASIS CONCERNING USG REACTION TO UK DECISION NOT TO ATTEND PARIS CLUB MEETING ON CHILE DEBT, SCHEDULED FOR MARCH 24, 25. YOU SHOULD DRAW ON FOLLOWING IN YOUR MEETINGS:

2. THE USG DEEPLY REGRETS THE UK DECISION NOT TO PARTICIPATE IN THE MARCH PARIS CLUB MEETING TO CONSIDER RESCHEDULING CHILE'S 1975 EXTERNAL PUBLIC DEBT FOR WHAT THE UK ITSELF DESCRIBES AS POLITICAL REASONS. THE CREDITOR CLUB FORMAT HAS BEEN UTILIZED IN INTERNATIONAL FINANCE FOR MANY YEARS AS THE APPROPRIATE MECHANISM FOR HANDLING QUESTIONS OF INDEBTEDNESS AND DEBT RESCHEDULING. WHERE DEBT RENEGOTIATION IS CONSIDERED APPROPRIATE DEVELOPED COUNTRIES USE A MULTILATERAL FRAMEWORK AND INSIST UPON THE PRINCIPLE OF NON-DISCRIMINATION AND EQUALITY AMONG ALL BILATERAL CREDITORS. SINCE 1956, THERE HAVE BEEN APPROXIMATELY 35 INTERNATIONAL AGREE-

MENTS NEGOTIATING DEBT RELIEF USING THIS PRINCIPLE. IN ALL THIS TIME, CREDITORS AND DEBTORS ALIKE HAVE CONTINUALLY STATED THAT THE CREDITOR CLUB CONCERNS ITSELF SOLELY WITH FINANCIAL AND OTHER RELATED ECONOMIC CONSIDERATIONS. THE INTRODUCTION OF POLITICAL CRITERIA INTO THIS FORUM IS NOT ONLY A SERIOUS BREACH OF THIS PROCEDURE, BUT IS ALSO A DANGEROUS PRECEDENT FOR CREDITOR AND DEBTOR COUNTRIES FOR THE FUTURE. IF CREDITORS UNDERMINE THE CREDITOR CLUB MECHANISM, THEY THEREBY PUT INTO JEOPARDY THE CONCEPT OF CREDITORS BEING REPAID ON A UNIFORM BASIS AND DEBTOR NATIONS BEING ABLE TO RE-ESTABLISH THEIR CREDITWORTHINESS.

3. IT IS OF PARTICULARLY GREAT CONCERN TO THE U.S. THAT THIS IS OCCURRING DURING A PERIOD OF GLOBAL ECONOMIC CRISIS WHEN MANY LDCS ARE IN SEVERE SITUATIONS. REFUSING TO CONSIDER THE POSSIBILITY OF DEBT RESCHEDULING FOR COUNTRIES IN THE POSITION OF IMMINENT OR ACTUAL DEFAULT ALSO PRESENTS POSSIBLE CONSEQUENCES WHICH IT IS DOUBTFUL THAT THE MEMBERS

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PAGE 03 STATE 045567

OF THE PARIS CLUB AND OTHER CREDITORS WOULD LIKE TO FACE. CONCEPT OF CREDITOR CLUB HAS COME UNDER INCREASING ATTACK FROM LDCS IN INTERNATIONAL FORA, WHERE THEY URGE EITHER TOTAL DEBT FORGIVENESS OR VIRTUALLY AUTOMATIC RESCHEDULING IN ALL CASES. CREDITOR NATIONS HAVE MAINTAINED THAT CREDITOR CLUB IS LONG-STANDING COMPETENT MECHANISM FOR DEALING WITH THESE QUESTIONS, A POSITION WHICH COULD BE DAMAGED IF OTHERS EMULATE UK ACTION.

4. U.S. STRONGLY FEELS THAT ATTENDANCE OF ALL CREDITORS AT PARIS CLUB SESSION TO CONSIDER RESCHEDULING GOC DEBT IS OF GREAT IMPORTANCE FOR FUTURE EXISTENCE OF CREDITOR CLUBS AND OF ORDERLY DEBT RESCHEDULING PROCEDURES. WE URGE OTHER CREDITORS' ATTENDANCE AS REINFORCEMENT OF THESE PRINCIPLES AND ASK THAT THEY RESPOND AFFIRMATIVELY TO FRENCH QUERY AS TO THEIR PLANS.

5. GENEVA FOR BENEDICK AND LEE: PLEASE BRING ABOVE POINTS TO ATTENTION OTHER PARIS CLUB DEBT OFFICIALS. KISSINGER

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